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Egypt, Israel and U.S. Sign Free-Trade Zones Accord

By Maher Chmaytelli

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Egypt, Israel and the U.S. reached an agreement that allows Egyptian industry to sell products using Israeli parts duty free in the U.S. The accord is the first between Egypt and Israel since their peace treaty in 1979.

Egyptian Foreign Trade and Industry Minister Rashid Mohamed Rashid along with Israeli Industry and Trade Minister Ehud Olmert and U.S. Trade Representative Robert Zoellick signed the accord in Cairo today. It established seven industrial zones in Cairo, Alexandria and Port Said, whose joint Israeli-Egyptian manufactured products won't be subject to U.S. import duties.

"In the midst of much unpleasant news emanating from the Middle East, today's event is a positive step," Rashid said in a statement. "The time has come to work hard, to spare no effort and to leave no stone unturned, as we strive to further the progress of peace in the region."

The U.S. hopes the trade zones will help the Middle East peace process by boosting Egyptian-Israeli cooperation. While Egypt was the first Arab country to sign a peace accord with Israel 25 years ago, its imports from Israel amounted to just \$12.5 million in 2003, according to Egyptian government figures.

Today's accord will mainly benefit the Egyptian textile industry, which employs 1 million people and accounts for a quarter of employment in manufacturing, officials and analysts said. The U.S. represents half of textile exports, or \$470 million in 2003. The Federation of Egyptian Industries expects the free-trade zones to increase exports to the U.S. to at least \$2 billion by the end of 2007.

'Very Positive'

The agreement is a "very positive thing and offers opportunities to Israelis and Egyptians, in terms of business, jobs, exports and modernization of their economy," U.S. State Department spokesman Richard Boucher said in Washington. The U.S. also hopes the pact will "serve as a catalyst for stronger ties" between Egypt and Israel, Boucher said.

"This agreement is an indicator of the positive turn taken by Egyptian-Israeli relations," Israel's Olmert said, according to Egypt's official news agency MENA. "All the parties will benefit."

Groups opposed to normal ties between Israel and Egypt staged a sit-in near the Journalists Union in Cairo. Between 50 and 100 people participated, said Dina Heshmat, a member of the organizing committee.

Explanation Required

The agreement "will require some explanation to the people," Rashid told reporters in Cairo. He expressed confidence that public opinion will be "receptive" to the advantages of the agreement, which he said will increase employment by boosting exports.

The seven Qualified Industrial Zones currently include about 230 factories employing a total of more than 160,000 people, with \$723 million in exports last year, according to Egypt's trade and industry ministry.

Egypt considers the agreement as a starting point and will aim to increase the number of qualified zones by at least three after six months, Rashid told reporters. The total number of zones that Egypt would like to see covered by the agreement is 16, he said.

Executives and workers from companies not located in the zones yesterday petitioned the government to be included. They are concerned their factories wouldn't withstand Chinese and Indian competition when the U.S. lifts textile quotas in January.

The Egyptian government said the free-zone accord will save more than 200,000 jobs in the textile industry. Egypt, a nation of 70 million people, had an official unemployment rate of 10 percent last year.

Textile Stocks Gain

Egypt's benchmark CASE 30 stocks index gained 2.17 percent, driven by textile companies. Oriental Weavers Co., which accounts for 85 percent of machine-made carpet production in Egypt, gained 3.47 percent to 58.98 Egyptian pounds.

The company gets 65 percent of revenue from sales abroad, with the U.S. and Canada accounting for 60 percent of its exports, said Nematallah Choucri, textile analyst at HC Brokerage in Cairo, in a telephone interview.

Products manufactured in the free-trade zones must have a portion of least 11.7 percent coming from Israel. In clothing, for example, the Israeli component can be zippers and buttons, said Khaled Sewelam, head of research at the American Chamber of Commerce in Cairo, in a phone interview.

Rashid told reporters parts coming from the Palestinian territories are included in the required 11.7 percent content. He said Egyptian factories could "in theory" import all the required content from the Palestinians.

The agreement will take effect tomorrow, the Egyptian government said. Rashid said it will take about a month to see the first product ready for shipment from an Egyptian qualified industrial zone to the U.S.

A similar free-trade agreement with Jordan led to the establishment of 14 zones and increased exports to the U.S. from the Hashemite kingdom to \$600 million this year from \$13 million in 1999, Olmert said at a business conference this month.

Egypt also has been negotiating a \$2.5 billion, 15-year agreement with Israel to import Egyptian natural gas.